DESIGNING GOVERNMENT-SUPPORTED VENTURE CAPITAL PROGRAMS IN EUROPE: WHAT DO WE KNOW, WHAT SHOULD WE KNOW? (SUMMARY)

Anna Söderblom
Stockholm School of Economics, anna.soderblom@hhs.se

Gordon Murray
University of Exeter

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SUMMARY

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Principal Topic

The US VC industry is admired throughout the world as an engine of national economic growth positively influencing entrepreneurial activity, employment growth and the fostering of innovative climates. Accordingly, the US has become an exemplar as to how government policy makers would wish their national VC industry to evolve. However, trans-Atlantic attempts to emulate the successful East/West coast model remain problematic. US VC funds continue to significantly outperform their European equivalents as early-stage and value added investors. Both the reasons for this performance discrepancy and the means by which it may be resolved remain important research and policy questions. Institutional and environmental factors influencing governmental efforts in developing a functioning VC market have already been evaluated by several researchers. This paper, however, takes a micro-economic perspective focusing specifically on VC firm related factors that have shown to be important determinants of investment performance.

Method

A literature review was undertaken to seek explanations for the persistent performance differential between US and European, early stage VC funds. At the VC firm level, available studies suggest that: large fund sizes, industry specialization, later stage investment preference, broader geographical focus, greater investor experience, strong deal flow and syndication of investments, are all factors that have repeatedly contributed to superior investment performance. The Swedish VC market were used to illustrate the extent to which research-based knowledge and policy recommendations has filtered through to national practice in a major European economy. A variety of industry and published resources were employed.

Results and Implications

Preliminary findings in Sweden would suggest that the actions of domestic VC firms, including public supported funds, regularly diverge from research-defined best practice. While government advice reflects some understanding of the major determinants of VC performance, public interventions run the risk of being too general and inflexible for complex financial markets. The implications of this desk based exercise are indicative but inconclusive. Several firm level determinants of VC success require further research before a robust template can be built to evaluate government action. Once tested, it is hoped that a Swedish public VC evaluative model of early stage investment behaviour can then be applied more generically.

CONTACT: Anna Söderblom; Stockholm School of Economics, Box 6501, SE-11383 Stockholm, SWEDEN; (T): +46 8 736 93 41; anna.soderblom@hhs.se